

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

PA-03 PRS-01 USIA-12 RSR-01 (ADP) W

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R 171639Z JUL 73

FM AMEMBASSY MADRID

TO SECSTATE WASHDC 4017

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E.O. 11652: N/A

TAGS: EFIN SP

SUBJECT: GOS ORGANIZATIONAL CHANGES SHIFT FOREIGN EXCHANGE AND
FOREIGN INVESTMENT CONTROL FUNCTIONS.

1. ONE OF THE SURPRISING PRODUCTS OF THE JULY 12 COUNCIL
OF MINISTERS MEETING WAS A DECREE-LAW WHICH DID AWAY
WITH THE SPANISH FOREIGN EXCHANGE INSTITUTE (INSTITUTO
ESPANOL DE MONEDA EXTRANJERA - IEME) AND THE OFFICE
OF ECONOMIC COORDINATION AND PROGRAMMING (OFICINA DE
COORDINACION Y PROGRAMACION ECONOMICA - OCIPE). IEME
WAS THE FOREIGN EXCHANGE CONTROL ENTITY OF THE GOVERN-
MENT AND OCIPE WAS THE OFFICE WITHIN THE PRESIDENCY
WHICH CONTROLLED FOREIGN INVESTMENTS.

2. THE FUNCTIONS FORMERLY PERFORMED BY IEME WERE DIVIDED
UP BETWEEN THE MINISTRY OF COMMERCE AND THE BANK OF SPAIN.
THE OFFICIAL ANNOUNCEMENT INDICATED THAT THIS DEVELOPMENT
IS IN LINE WITH THE POLICY LAID OUT IN THE LAW
GOVERNING CREDIT AND BANKING. THIS LAW PROVIDES THAT
THE MOVEMENT OF FOREIGN PAYMENTS AND THE CENTRALIZATION
OF RESERVES AND FOREIGN EXCHANGE AND RELATED OPERATIVE
FUNCTIONS BE TRANSFERRED TO THE BANK OF SPAIN AT AN
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OPPORTUNE TIME. THE ANNOUNCEMENT WENT ON TO SAY THAT

THE "ADMINISTRATIVE" FUNCTIONS OF IEME WOULD BE TRANSFERRED TO THE MINISTRY OF COMMERCE. THIS LATTER IS UNDERSTOOD TO INCLUDE AMONG OTHER THINGS THE HANDLING OF ROYALTY PAYMENTS, FOREIGN EXCHANGE APPROVALS FOR SPANISH TRAVELERS ABROAD AND THE BALANCE OF PAYMENTS ACCOUNTING FUNCTION. THE MORE IMPORTANT "OPERATIVE" FUNCTIONS WILL BE EXERCISED BY THE BANK OF SPAIN.

3. PRELIMINARY INFORMATION INDICATES THAT ANTONIO SANCHEZ PEDRENO, WHO IS PRESENTLY SUB-DIRECTOR GENERAL OF BANK OF SPAIN, WILL ASSUME THE NEW POSITION OF DIRECTOR GENERAL OF EXTERNAL ACTIVITIES FOR THE BANK OF SPAIN. IN THIS CAPACITY HE WILL HEAD THE BANK'S OPERATIONS IN THE FOREIGN EXCHANGE CONTROL FIELD FORMERLY PERTAINING TO IEME. IF SANCHEZ PEDRENO'S APPOINTMENT IS CONFIRMED BY THE COUNCIL OF MINISTERS IT WILL MEAN THAT AN EXCEPTIONALLY WELL QUALIFIED ECONOMIST AND GOOD FRIEND OF THE EMBASSY WILL OCCUPY THIS KEY POSITION.

4. A COMPLEMENTARY REORGANIZATIONAL STEP WAS THE DROPPING OF THE OCIFE, THE OFFICE WITH WHICH MANY AMERICAN INVESTORS HAVE HAD TO DEAL IN THE PAST IN OBTAINING APPROVAL FOR THEIR NEW INVESTMENTS AND CAPITALIZATION INCREASES. THIS OFFICE WHICH FORMERLY WAS A SUB-DIRECTORATE IN THE PRESIDENCY HAS HAD ITS FUNCTIONS TRANSFERRED TO THE MINISTRY OF COMMERCE. A NEW DIRECTORATE GENERAL FOR INTERNATIONAL TRANSACTIONS WILL BE FORMED IN THE MINISTRY OF COMMERCE WHICH WILL ABSORB NOT ONLY THE FOREIGN INVESTMENT FUNCTION OF OCIFE BUT WILL ALSO CONTROL SPANISH INVESTMENT ABROAD AND WILL TAKE ON THE ADMINISTRATIVE FUNCTIONS OF IEME REFERRED TO ABOVE. IT IS NOT EXPECTED THAT THERE WILL BE AN ALTERATION IN THE BASICALLY LIBERAL POLICY OF AUTHORIZING FOREIGN INVESTMENT IN SPAIN. AS IN THE PAST THE FINAL DECISION WILL HAVE TO BE MADE AT THE COUNCIL OF MINISTERS LEVEL AND, IN THE CASE OF INDUSTRIAL INVESTMENT, THE MINISTER OF INDUSTRY OPINION WILL CONTINUE TO CARRY THE PREDOMINANT WEIGHT.

5. TWO WELL INFORMED SOURCES WITHIN THE GOVERNMENT HAVE INDICATED THAT THE PURPOSE FOR THE LIMITED OFFICIAL USE

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MOVE OF THE FOREIGN INVESTMENT FUNCTION TO COMMERCE WAS TO OFFSET THE LOSS OF INFLUENCE TO THE MINISTRY OF COMMERCE REPRESENTED BY THE BANK OF SPAIN ACQUIRING SUBSTANTIAL PORTIONS OF IEME'S RESPONSIBILITIES. FORMERLY, THE PRESIDENT OF THE ADMINISTRATIVE COUNCIL OF IEME WAS THE MINISTER OF COMMERCE. AS A RESULT, THE MINISTRY OF COMMERCE PLAYED AN IMPORTANT ROLE IN THE FIXING OF EXCHANGE RATES, WHICH OFTEN TIMES REFLECTED TRADE INTERESTS.

THE NEW ARRANGEMENT, WHEREIN THE BANK OF SPAIN DIRECTLY
(AND THE MINISTRY OF FINANCE INDIRECTLY SINCE THE BANK
OF SPAIN FALLS WITHIN ITS JURISDICTION), WILL PLAY THE
PRINCIPAL ROLE IN THE FIXING OF EXCHANGE RATES, MAY
RESULT IN LESS EMPHASIS BEING GIVEN TO TRADE-ADVANTAGE
CONSIDERATIONS. THE VIRTUALLY IMMOBILE DOLLAR-PESETA
EXCHANGE RATE OF THE PAST FIVE MONTHS COULD THEREFORE BE
MORE SUSCEPTIBLE TO A MODIFICATION THAT WOULD REVALUE
THE PESETA SINCE THE RESERVES CONTINUE TO GROW AT AN
UNACCEPTABLY HIGH RATE (A FACTOR KNOWN TO ESPECIALLY
TROUBLE THE FINANCE MINISTER), AND THE OTHER EUROPEAN
CURRENCIES HAVE APPRECIATED EXCESSIVELY IN RELATION TO
THE PESETA. IT HAS ALSO BEEN OBSERVED THAT THIS ORGANIZATIONAL
MOVE WILL GIVE THE NEW FINANCE MINISTER BARRERA DE IRIMO MUCH
MORE POWER IN THE GOS STRUCTURE AND MAKE HIM MORE OF A
MINISTER OF ECONOMY THAN HIS TITLE OF FINANCE MINISTER
WOULD OTHERWISE INDICATE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MADRID04017
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730729/aaaaauzr.tel
Line Count: 133
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags:
Review Date: 26 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26-Sep-2001 by kelleyw0>; APPROVED <27 FEB 2002 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOS ORGANIZATIONAL CHANGES SHIFT FOREIGN EXCHANGE AND FOREIGN INVESTMENT CONTROL FUNCTIONS.
TAGS: EFIN, SP
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005